

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05  
SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 IGA-02  
/102 W

-----171201Z 111922 /12

R 171015Z JUN 77  
FM AMEMBASSY VIENNA  
TO SECSTATE WASHDC 2147  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY GENEVA  
AMEMBASSY LONDON  
PARIS 4968  
AMEMBASSY ROME

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PARIS FOR OECD AND EMBASSY  
BRUSSELS FOR USEEC AND EMBASSY

PASS TREASURY FRB, AND EXIM BANK

E.O. 11652: N/A  
TAGS: EFIN, AU  
SUBJECT: AUSTRIAN MONETARY AND FISCAL AUTHORITIES PUT ON THE  
BRAKES

REF: A. VIENNA 4373, B. PARIS 17113

1. BEGIN UNCLASSIFIED. SUMMARY. ON JUNE 7 AND 8 RESPECTIVELY  
GOA FINANCE MINISTER ANDROSCH AND AUSTRIAN NATIONAL BANK

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(ANB) ANNOUNCED MOVES AIMED AT CUTTING THE DEFICITS IN  
THE BUDGET AND THE BALANCE OF PAYMENTS. TIGHTENING OF  
MONETARY POLICY WAS MOST SIGNIFICANT: CENTRAL BANK DISCOUNT  
AND LOMBARD RATES EACH RAISED BY 1.5 PERCENT TO 5.5. AND 6  
PERCENT RESPECTIVELY AND BANKS ARE TO BE LIMITED TO CREDIT  
EXPANSION OF 1.1 PERCENT PER MONTH. PRIMARY TARGET IS TO CURB  
MUSHROOMING CONSUMER CREDIT, MUCH OF WHICH IS USED TO

FINANCE IMPORTS. OFFSETTING LIBERALIZATION OF OPEN

MARKET OPERATIONS WAS MADE TO FACILITATE REFINANCING OF EXPORTS AND INDUSTRIAL INVESTMENT. "AUSTERITY" BUDGET OUTLINED BY ANDROSCH FOR 1978 IS DESIGNED TO SAVE AS 3 BILLION. AT THE SAME TIME HE PLEDGED ADDITIONAL GOA STEPS TO ASSIST STRUCTURAL IMPROVEMENTS IN INDUSTRY AND PROMOTE ENERGY CONSERVATION AND DEVELOPMENT. BUSINESS COMMUNITY FEELS IT BEING ASKED TO BEAR THE BURDEN OF MONETARY AND BUDGETARY BELT-TIGHTENING, IS SKEPTICAL THAT NEW MEASURES WILL ACHIEVE THEIR OBJECTIVES, AND FEARS A DETRIMENTAL IMPACT ON ECONOMIC GROWTH. END SUMMARY.

2. CREDIT RESTRICTIONS. ON JUNE 8 ANB ANNOUNCED INCREASE OF CENTRAL BANK REDISCOUNT RATE BY 1.5 PERCENTAGE POINTS FROM 4 PERCENT (IN EFFECT SINCE JUNE 10, 1976) TO 5.5 PERCENT AS OF JUNE 10, 1977. LOMBARD RATE WAS INCREASED BY SIMILAR AMOUNT TO 6 PERCENT. HOWEVER, AVAILABILITY OF ANB REFINANCING HENCEFORTH WILL BE DEPENDENT ON THE BANKS' LIMITING THEIR NET LENDING, AS OF MAY 31, 1977, TO 1.1 PERCENT PER MONTH (SO-CALLED "LIMES") OF THE AMOUNT OF CREDIT OUTSTANDING ON MARCH 31, 1977. GOAL OF MEASURES, FORMALLY CALLED "STABILIZATION PHASE 10", IS TO REDUCE ANNUAL GROWTH RATE OF BANK CREDIT FROM PRESENT LEVEL OF 22 PERCENT TO NO MORE THAN 13.2 PERCENT BY THE END OF MAY, 1978. PARTICULAR TARGET OF ANB AUTHORITIES IS SOARING CONSUMER CREDITS USED FOR IMPORTS (NOTABLE AUTOMOBILES) WHICH CON-

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TRIBUTE SUBSTANTIALLY TO PERSISTENT LARGE BALANCE OF PAYMENTS DEFICIT.

3. EFFECT OF MONTARY TIGHTENING ON EXPORTS AND BUSINESS INVESTMENT TO BE MITIGATED BY CREATION OF ADDITIONAL FINANPING FACILITIES. ANB CEILING FOR CREDITS OF OESTERREICHISCHE KONTROLLBANK INCREASED BY AS 1 BILLION TO AS 3 BILLION FOR PERIOD ENDING JUNE 31, 1978. ANB ALSO PLEDGED TO REFINANCE DURING NEXT TWO YEARS UP TO AS 1 BILLION IN BANK CREDITS TO OESTERREICHISCHE INVESTITIONSKREDIT A.G. FOR INVESTMENT FINANCING.

4. IN DISCUSSING THE NEW MONETARY MEASRURES WITH

JOURNALISTS ANB PRESIDENT KLOSS STATE THAT WITHIN THE NEW "LIMES", LENDERS ARE TO GIVE PRIORITY TO INVESTMENT AND EXPORT CREDITS AND BANKS THAT DID NOT MIGHT BE LIMITED IN THEIR ACCESS TO ANB REFINANCING. KLOSS

ALSO TOOK POSITION THAT CENTRAL BANK'S ACTION WOULD NOT RESULT IN GENERAL UPTREND IN CREDIT COSTS SINCE, IN HIS VIEW, IT MERELY REPRESENTED FORMAL RECOGNITION OF EXISTING MONEY MARKET SITUATION.

5. BUDGET OUTLINE FOR 1978. DAY BEFORE ANB ACTION AND A DAY AFTER A GOA ECONOMIC POLICY CAUCUS CHAIRED BY CHANCELLOR KREISKY, FINANCE MINISTER ANDROSCH OUTLINED A 1978 "AUSTERITY" BUDGET. HPLAN, ACCORDING TO ANDROSCH, IS TO TAKE ADVANTAGE OF CURRENTLY FAVORABLE DOMESTIC ECONOMIC SITUATION TO STABILIZE BUDGET DEFICIT.

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PARIS FOR OECD AND EMBASSY

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ECONOMY MEASURES AFFECTING BOTH SIDES OF THE LEDGER ANTICIPATED TO SAVE ABOUT AS 3 BILLION. THEY INCLUDE 10 PERCENT ACROSS-THE-BOARD CUTS FOR ALL NON-STATUTORY

OUTLAYS (NOTABLY GOA INVESTMENTS INCLUDING CONSTRUCTION, AND SUBSIDIES), ELIMINATION OR REDUCTION OF SEVERAL TAX PRIVILEGES FOR CERTAIN TYPES OF INVESTMENTS; SLOWED GROWTH IN OUTLAYS FOR EDUCATION AND SOCIAL WELFARE, AND MEASURES TO SLOW THE GROWTH IN THE DEFICITS OF THE POSTAL SERVICE AND RAILROADS. DESPITE ECONOMIES, 1978 BUDGET DEFICIT LIMITED OFFICIAL USE

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IS FORECAST TO REACH AS 43 BILLION, ABOUT THE SAME AS ESTIMATED FOR THIS YEAR. FULL PARTICULARS ON 1978 BUDGET WILL BE REPORTED WHEN AVAILABLE.

6. ANDROSCH ALSO STATED GOA PLANNED NUMBER OF OTHER ECONOMIC POLICY STEPS. MEASURES ARE TO INCLUDE FACILITATION OF STRUCTURAL IMPROVEMENTS IN AUSTRIAN INDUSTRY WITH A VIEW TOWARD INCREASED IMPORT SUBSTITUTION, PROMOTION OF ENERGY CONSERVATION, AND DEVELOPMENT OF NEW ENERGY RESOURCES. FINANCE MINISTER NOTED THAT GOVERNMENT'S NEW ECONOMIC POLICY ACTIONS WOULD HAVE TO BE BACKED BY WHAT HE TERMED A CONSIDERATE INCOMES POLICY BASED ON PLEDGES BY INDUSTRY AND LABOR.

7. REACTION. INITIAL COMMENTS BY POLITICAL OPPOSITION AND BUSINESS COMMUNITY TO NEW ECONOMIC POLICY COURSE WERE DOMINANTLY NEGATIVE. FEDERAL CHAMBER OF COMMERCE AND THE LEAGUE OF INDUSTRIALISTS LAMENTED THE ADDITIONAL BURDENS ON BUSINESS AT A TIME WHEN THEY BELIEVE FURTHER STIMULATION OF INVESTMENT IS NEEDED TO PROMOTE ECONOMIC GROWTH. LEAGUE OF INDUSTRIALISTS ESTIMATED THAT CREDIT AND BUDGET RESTRICTIONS WILL RESULT IN ADDED COSTS ABOUT 3 TIMES AS LARGE AS THE AS 1 BILLION IN NEW FUNDS TO BE MADE AVAILABLE FOR STRUCTURAL IMPROVEMENTS. OPPONENTS ALSO DISPUTE KLOSS ASSERTION THAT DISCOUNT RATE HIKE WILL NOT PRODUCE GENERAL RISE IN INTEREST RATES. INCREASED CREDIT COSTS, IN THEIR VIEW, WILL FALL MOST HEAVILY ON SMALL AND MIDDLE-SIZED FIRMS SINCE GOA AND LARGE FIRMS WILL BE ABLE TO BORROW ABROAD. ON THE OTHER HAND, THE PRESIDENT OF THE AUSTRIAN BANKERS ASSOCIATION WELCOMED CREDIT CURBS AND BUDGET RESTRICTIONS AS BEING SUPPORTIVE OF THE "HARD SCHILLING" POLICY AND THE STABILITY OF LOCAL CAPITAL MARKET. END UNCLASSIFIED.

8. BEGIN LIMITED OFFICIAL USE. COMMENT: ALTHOUGH LIMITED OFFICIAL USE

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THERE HAS BEEN A SUBSTANTIAL TIGHTENING OF MONETARY POLICY, CREDIT AND BUDGET MEASURES ANNOUNCED LAST WEEK DO NOT AFFECT THE KEYSTONES OF GOA ECONOMIC POLICY: THE SCHILLING REMAINS HARD, SOCIAL WELFARE PROGRAMS REMAIN LARGELY INTACT. WE EXPECT THAT THE GOA WILL SEEK PLEDGES OF SUPPORT FOR THE NEW ECONOMIC MEASURES FROM BUSINESS AND LABOR AT THE NEXT QUARTERLY MEETING OF THE "SOCIAL PARTNERS" TO BE HELD LATER THIS MONTH.

9. THE GOVERNMENT HOPES THAT THE RELATIVELY MODEST STEPS ANNOUNCED JUNE 7 AND 8 WILL BE SUFFICIENT TO SLOW THE GROWTH OF THE CURRENT ACCOUNT DEFICIT AND STABILIZE THE BUDGET FINANCING GAP. THE RELATIVE LACK OF CONCERN ABOUT THE AUSTRIAN BALANCE OF PAYMENTS INDICATED AT THE JUNE 8 MEETING OF THE TEMPORARY WORKING PARTY OF THE OECD ECONOMIC POLICY COMMITTEE (SEE REF B) LENDS SUPPORT TO THE GOA'S READING OF THE PRESENT SITUATION. GIVEN AUSTRIA'S STILL STRONG EXCHANGE RESERVE POSITION AND THE GOA'S EXCELLENT CREDIT RATING IN EURO CURRENCY MARKETS, THE RECENT STABILIZATION ACTIONS SHOULD, IN OUR VIEW, GET THE COUNTRY THROUGH THE SUMMER WITHOUT MAJOR PROBLEMS. OVER THE LONGER TERM, HOWEVER, THERE ARE REAL UNCERTAINTIES: WILL THE CREDIT AND BUDGET MEASURES PRODUCE THE DESIRED DAMPENING OF CONSUMER CREDIT AND IMPORTS WITHOUT SLOWING THE GNP GROWTH RATE, EXPORTS AND NEEDED BUSINESS INVESTMENT? ALSO WILL THE ACTIONS BE SUFFICIENT TO HALT THE EROSION OF AUSTRIA'S COMPETITIVE POSITION? (A RECENT REPORT OF THE AUSTRIAN INSTITUTE FOR ADVANCED STUDIES SHOWED THAT BETWEEN 1974 AND 1977, AUSTRIAN LABOR COSTS ROSE BY OVER 21 PERCENT WHILE THOSE OF WEST GERMANY AND SWITZERLAND BY LESS THAN 9 PERCENT). IF THESE TWO QUESTIONS CANNOT BE ANSWERED POSITIVELY WITHIN THE NEXT FEW MONTHS, GOA MAY WELL BE FACED WITH THE LIMITED OFFICIAL USE

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PROSPECT OF TAKING EVEN TOUGHER ECONOMIC POLICY DECISIONS THAN THE ONES ANNOUNCED LAST WEEK. MEEHAN

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## Message Attributes

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